

## Message Text

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ACTION EA-07

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FM AMEMBASSY JAKARTA

TO USDOC WASHDC

SECSTATE WASHDC 3322

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

UNCLAS JAKARTA 8632

E.O. 11652: N/A

TAGS: ECON, BGEN, ID

SUBJ: GOI TO RESTRICT FOREIGN INVESTMENT IN  
CONSTRUCTION.

1. AFTER MEETING WITH PRESIDENT SUHARTO, BARLI HALIM,  
CHAIRMAN OF THE CAPITAL INVESTMENT COORDINATING  
BOARD, ISSUED PRESS STATEMENT JULY1, 1974 OUTLINING  
GUIDELINES SUHARTO GAVE HIM FOR FUTURE POLICY  
RESTRICTING FOREIGN CAPITAL INVESTMENT IN CONSTRUCTION  
INDUSTRY. ENGLISH LANGUAGE PRESS CARRIED BADLY  
GARBLED REPORTS ON JULY 2, AND APPARENTLY EVEN RESPON-  
SIBLE GOI OFFICIALS ARE NOT CERTAIN EXACT MEANING  
OF GUIDELINES NOR HOW THEY WILL BE IMPLEMENTED.  
EMBASSY PIECED TOGETHER FOLLOWING OUTLINE FROM  
INDONESIAN LANGUAGE PRESS ARTICLES AND LOCAL CONTRACT:

A. CONSTRUCTION COMPANIES: NEW FOREIGN INVESTMENTS  
IN INDONESIAN CONSTRUCTION COMPANIES WILL BE PROHIBITED.  
EXISTING JOINT VENTURE COMPANIES MUST SHIFT TO MAJORITY  
51-0/0 INDONESIAN OWNERSHIP, BUT NO DEADLINE HAS YET BEEN  
SET FOR COMPLIANCE WITH THIS REQUIREMENT.

B. CONSTRUCTION CONTRACTS WILL BE GRANTED EXCLU-  
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SIVELY TO "INDONESIAN" FIRMS (PRESUMABLY INCLUDING

EXISTING JOINT VENTURES). HOWEVER, GOI RECOGNIZES THAT SITUATIONS WILL ARISE WHERE INDONESIA LACKS REQUIRED TECHNICAL EXPERTISE IN CERTAIN AREAS OF CONSTRUCTION, I.E. HARBORS, DAMS, AIRPORTS, ETC. IN SUCH CASES FOREIGN FIRMS WILL BE PERMITTED TO WORK IN SPECIAL "COOPERATION" ARRANGEMENTS WITH INDONESIAN FIRMS. THE PURPOSE OF THIS EXCEPTION IS TO AVOID RETARDING NEEDED CONSTRUCTION AND TO FACILITATE INDONESIAN ACQUISITION OF EXPERTISE REQUIRED TO EVENTUALLY COMPLETELY SUPPLANT FOREIGN SUB-CONTRACTORS.

C. CONSTRUCTION INVESTMENTS: FOREIGN INVESTMENT IN REAL ESTATE CONSTRUCTION WILL BE STOPPED; HOWEVER, AN EXCEPTION WILL BE MADE FOR INVESTMENTS IN LARGE "INTERNATIONAL" HOTELS (THOSE EXCEEDING 50 ROOMS) WHICH REQUIRE LARGE AMOUNTS OF CAPITAL. INVESTMENTS IN "ECONOMY CLASS" HOTELS (LESS THAN 50 ROOMS) WILL BE OPEN EXCLUSIVELY TO DOMESTIC INVESTMENT.

2. COMMENT: IT WILL BE IMPORTANT TO FOLLOW SPECIFIC RULINGS BY INVESTMENT COORDINATING BOARD TO DETERMINE LENGTH OF TIME PRESENT FOREIGN-OWNED FIRMS WILL HAVE TO COMPLY WITH NEW OWNERSHIP REQUIREMENTS, AND HOW GOI PLANS IMPLEMENT OTHER RESTRICTIONS.

3. CLEARLY THESE RESTRICTIONS FALL INTO CONTINUING PATTERN OF GOI EFFORTS SINCE JANUARY 15 RIOTS TO LIMIT FOREIGN INVOLVEMENT IN EXPANDING LIST SECTORS INDONESIAN ECONOMY, BUT LEAVING UNCERTAIN HOW AND WHETHER RESTRICTIONS WILL BE ENFORCED.

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## Message Attributes

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